

DOLLAR BAY-TAMARACK CITY AREA SCHOOLS
DOLLAR BAY, MICHIGAN

AUDITED FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION

June 30, 2006

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Dollar Bay-Tamarack City Area Schools
Dollar Bay, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Dollar Bay-Tamarack City Area Schools as of and for the year then ended June 30, 2006, which collectively comprise the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Dollar Bay-Tamarack City Area Schools's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the *Michigan School Auditing Manual*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Dollar Bay-Tamarack City Area Schools as of June 30, 2006, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 22, 2006 on our consideration of Dollar Bay-Tamarack City Area Schools' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

The management's discussion and analysis and budgetary comparison information on pages 7 through 13 and 33, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express any opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Dollar Bay-Tamarack City Area School's basic financial statements. The additional information on pages 35 to 41 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This additional information has been subject to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

August 22, 2006

Bruce A. Rukkila, CPA, PC
Certified Public Accountants



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**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Board of Education
Dollar Bay-Tamarack City Area Schools
Dollar Bay, Michigan

We have audited the general purpose financial statements of Dollar Bay-Tamarack City Area Schools as of and for the year ended June 30, 2006, and have issued our report thereon dated August 22, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Dollar Bay-Tamarack City Area Schools' general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Dollar Bay-Tamarack City Area Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information of the School District's Board of Education, management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Bruce A. Rukkila, CPA, PC

Certified Public Accountants

August 22, 2006

This section of Dollar Bay-Tamarack City Area School's annual financial report presents our discussion and analysis of the School District's financial performance during the year ended June 30, 2006. Please read it in conjunction with the School District's financial statements, which immediately follows this section.

Financial Highlights

The financial position for the Dollar Bay-Tamarack City Area Schools is still of concern. However, the district has adhered to a stringent plan to reduce costs which have resulted in a savings of \$98,613 diminishing the deficit to \$110,515. This accomplishment is not to be overlooked. This is significant progress for a school district of our size where there are limited options for reducing costs. We continued with competitive bid savings of 50% for supplies and services and administration staff has assumed duties without additional pay for eliminated positions. In addition, some savings incurred by changing health insurance coverage to MESSA Choice II. To avoid additional expenses, a salary freeze was taken by all staff. These actions followed the guidelines established by the Deficit Elimination Plan.

Overview of the Financial Statements

The annual report consists of a series of financial statements including other requirements as follows:

- Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.
- The Government-wide Financial Statements consists of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of the District as a whole and represent an overall view of the District's finances.

Statement of Net Assets and the Statement of Activities

These statements provide information that help determine how the District is doing financially as a result of the year's activities. The statements are shown using a full accrual basis.

The District's net assets and the changes in the net assets during the year are reported by these two statements. Increases or decreases in the District's net assets is one way to determine if the financial position of the District is improving or deteriorating. However, non-financial factors will need to be considered as well to determine the overall financial position of the District.

- The Statement of Fiduciary Net Assets, presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

The School District is the trustee, or fiduciary, for its student activity funds. All of the School District's fiduciary activities are reported in separate statements of fiduciary net assets. We exclude these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

Overview of the Financial Statements - Continued

- Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. These statements also report the District's operations in more detail than the Government-wide Financial Statements by providing information about the most significant funds.

The fund level financial statements are reported on a modified accrual basis. Only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent that they are normally expected to be paid with current financial resources.

In the fund financial statements, purchased capital assets are reported as expenditures in the year of acquisition. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long term obligations are recorded as expenditures. Future year's debt obligations are not recorded.

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual." In the State of Michigan, the District's major instructional support activities are reported in the General Fund. Additional activities are reported in their relevant funds including: Debt Retirement Funds, School Food Service, and Athletic Funds.

Major Funds: Under GASB Statement 34, the audit focus has shifted from type of governmental fund to major funds. Major funds are the largest funds in terms of assets, liabilities, revenues or expenses/expenditures. This allows the reader to see more detailed activity of the major funds. For the District, the General Fund and Debt Retirement Fund meet this requirement

Non-major Funds: In the basic financial statements, non-major funds are consolidated into one column. These are smaller funds. Detailed information about non-major funds can be found after the notes to the financial statements.

- Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.
- Required supplementary information, other than Management Discussion and Analysis, provides information about the required budgetary comparison information on the General Fund.
- Other supplementary information provides detailed information about the General, Debt, School Food Service and Athletic Funds.

Summary of Net Assets

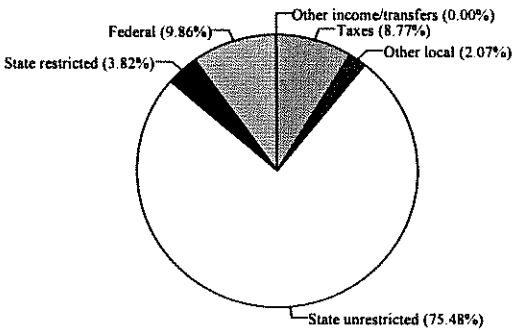
	2006	2005
Assets		
Current and other assets	\$ 788,891	\$ 751,635
Restricted investments	45,886	2,476,689
Capital assets - Net of accumulated depreciation	3,055,787	3,137,121
Total Assets	\$ 3,890,564	\$ 6,365,445
Liabilities		
Current liabilities	\$ 1,035,281	\$ 3,472,876
Long-term liabilities	2,757,105	2,894,338
Total Liabilities	3,792,386	6,367,214
Net Assets		
Invested in capital assets - net of related debt	243,302	318,388
Restricted	103,623	54,963
Unrestricted	(248,747)	(375,120)
Total net assets	98,178	(1,769)
Total Liabilities and Net Assets	\$ 3,890,564	\$ 6,365,445

Results of Operations in Governmental Activities

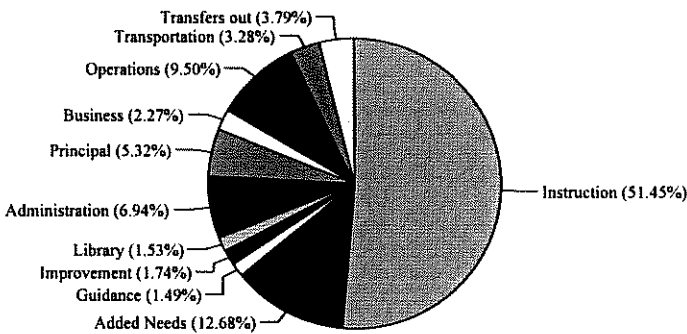
	2006	2005
Program Revenue:		
Charges for services	\$ 32,402	\$ 37,382
Grants and contributions	374,736	254,869
General Revenue:		
Property taxes	451,424	448,092
State foundation allowance	1,735,540	1,697,515
Other	48,463	(19,549)
Total Revenue	2,642,565	2,418,309
Functions/Program Expenses		
Instruction	1,445,928	1,430,792
Support services	721,938	666,022
School food services	94,355	81,620
Athletics	45,955	39,460
Interest on long-term debt	234,217	161,500
Other debt	225	13,275
Total Expenses	2,542,618	2,392,669
Change in Net Assets	99,947	25,640
Net Assets - Beginning	(1,769)	(27,409)
Net Assets - Ending	\$ 98,178	\$ (1,769)

The following charts highlight the District's General Fund activities:

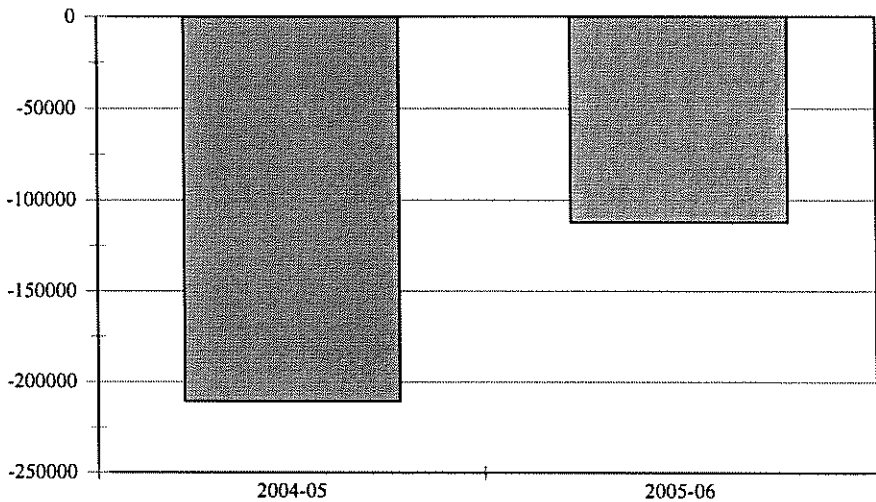
2005-06 Revenues



2005-06 Expenditures



Fund Balance Comparison



Significant Transactions and Changes in Individual Funds

The overall financial position of the individual Governmental funds of the District did not change significantly from the previous year. A comparison of revenues/transfers, expenditures/transfers and fund balances is as follows:

	<u>Current Year</u>	<u>Prior Year</u>	<u>Change</u>
General Fund:			
Revenues/Transfers	\$ 2,299,380	\$ 2,097,647	\$ 201,733
Expenditures/Transfers	\$ 2,200,772	\$ 2,159,179	\$ 41,593
Fund Balance	\$ (110,515)	\$ (209,128)	\$ 98,613
Debt Retirement Fund:			
Revenues/Transfers	\$ 258,537	\$ 250,269	\$ 8,268
Expenditures/Transfers	\$ 209,877	\$ 226,563	\$ (16,686)
Fund Balance	\$ 103,623	\$ 54,963	\$ 48,660
School Food Service Fund:			
Revenues/Transfers	\$ 90,387	\$ 87,498	\$ 2,889
Expenditures/Transfers	\$ 94,355	\$ 81,620	\$ 12,735
Fund Balance	\$ 1,910	\$ 5,878	\$ (3,968)
Athletic Fund:			
Revenues/Transfers	\$ 50,455	\$ 51,176	\$ (721)
Expenditures/Transfers	\$ 45,955	\$ 39,460	\$ 6,495
Fund Balance	\$ 4,500	\$ 0	\$ 4,500

General Fund - An increase in state aid and property taxes explains the variance in revenues. Expenses were higher from prior year due to increases in fuel, utilities and bus repairs.

School Food Service Fund - There was an increase in state aid and milk sales. Increase in expenditures represent salaries and benefits. In prior years the report preparation and other paper work was performed by office personnel and recorded in the general fund. The school food service personnel now performs these duties and their time is accounted for in the proper fund.

Athletic Fund - The purchase of new uniforms, increased travel costs, and the raising rates for officials are the reasons behind increased expenditures.

Debt Service Fund - Property taxes increased from prior year. Expenditures were reduced due to the savings from refinancing bonds.

Dollar Bay-Tamarack City Area Schools
Management's Discussion and Analysis
June 30, 2006

General Fund Budgetary Highlights

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the annual budget prior to the start of the fiscal year on July. Any amendments to the original budget must be approved by the Board prior to the close of the fiscal year on June 30.

For the fiscal year ended June 30, 2006, the original budget was adopted on June 27, 2005. Since the original budget is adopted two months before school is in session, we often have many unknowns such as the number of students we will have for the year. Since much of the District's revenue is determined based on the number of students enrolled, this unknown could have a significant impact on the budget. Often there are a number of unforeseen events that occur throughout the year that impact the budget and/or cause budget variances. Therefore, the District amended its budget twice during the fiscal year.

	Original Budget	Final Budget	Actual	Variance with final budget	% Variance
Revenues	\$ 2,222,371	\$ 2,328,060	\$ 2,299,380	\$ (28,680)	-1.2%
Expenditures					
Instruction	\$ 1,349,723	\$ 1,419,562	\$ 1,411,489	\$ 8,073	0.6%
Supporting services	629,265	718,831	705,801	13,030	1.8%
Total expenditures	\$ 1,978,988	\$ 2,138,393	\$ 2,117,290	\$ 21,103	1.0%
Other financing sources (uses)	\$ (71,284)	\$ (86,590)	\$ (83,482)	\$ (3,108)	4%

The decrease in actual revenues from the final budget is due mainly to the misclassification of taxes collected.

Final budget revenues increased from original budget due to the addition of various grants such as Impact Aid, Comprehensive School Reform grant, and Special Education grant.

Final budget expenses in supporting services increased from the original budget due mainly to the addition of a full time business manager and legal services for negotiations.

Capital Assets and Debt Administration

Capital Assets: There was a net decrease of \$11,000 due to the disposal of a tractor. There were no purchases for the fiscal year 2005-2006.

Additional information on capital assets can be found on page 25.

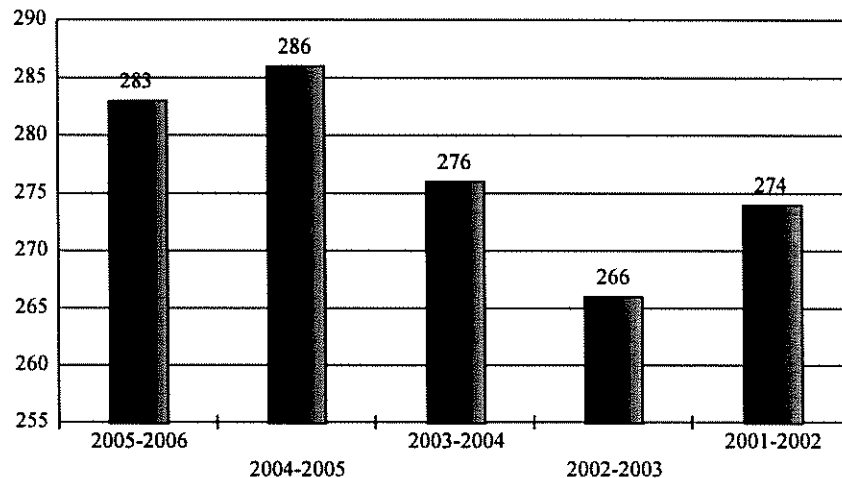
Long-term Debt: At the end of the current fiscal year, the Districts total debt was \$2,844,968. This total amount is backed by the full faith and credit of the District. The District's total debt was decreased by \$2,468,275 during the fiscal year.

Additional information on the District's long-term debt can be found on page 26 of this report.

Known Facts, Decisions, or Conditions Having Significant Affect on Future Operations

The graph depicts 1.0% decline in the number of students enrolled from the previous year, using the State Aid Membership Count.

State Aid Membership Count



Our elected officials and administration consider many factors when setting the School District's fiscal year budget. One of the most important factors affecting the budget is our student count. The State foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil.

State revenues received by Michigan school districts are approved annually in the State Aid Act. This Act, approved by the State Legislature, provides a foundation amount (amount per student) of \$7,085 for the 2006-07 school year. This represents an increase of \$210 over the 2005-06 foundation amount.

Contacting the District's Financial Management

This financial report is designed to provide our citizens and taxpayers with a general overview of the District's finances. If you have questions about this report or need additional information, contact the Business Office, Dollar Bay-Tamarack City Area Schools.

DOLLAR BAY-TAMARACK CITY AREA SCHOOLS
STATEMENT OF NET ASSETS

June 30, 2006

	<u>Governmental Activities</u>
ASSETS:	
CURRENT ASSETS:	
Cash and cash equivalents	\$ 17,009
Investments	405,389
Taxes receivable	25,726
Accounts receivable	3,116
Due from other governmental units	<u>337,651</u>
TOTAL CURRENT ASSETS	<u>788,891</u>
NON-CURRENT ASSETS:	
Restricted cash	<u>45,886</u>
Total Restricted Assets	<u>45,886</u>
Capital assets	3,786,372
Less: Accumulated depreciation	<u>(730,585)</u>
Net Capital Assets	<u>3,055,787</u>
TOTAL NON-CURRENT ASSETS	<u>3,101,673</u>
TOTAL ASSETS	<u>\$ 3,890,564</u>
LIABILITIES:	
CURRENT LIABILITIES:	
Accounts payable	\$ 15,618
Accrued expenses	238,800
Accrued interest	90,017
Due to other governmental units	66,846
Short-term note payable	514,000
Bonds payable within one year	<u>110,000</u>
TOTAL CURRENT LIABILITIES	<u>1,035,281</u>
NON-CURRENT LIABILITIES:	
Bonds payable, due in more than one year	2,345,000
Accrued retirement and vacation	144,637
School bond loan fund payable	<u>267,468</u>
TOTAL NON-CURRENT LIABILITIES	<u>2,757,105</u>
TOTAL LIABILITIES	<u>3,792,386</u>
NET ASSETS:	
Invested in capital assets, net of related debt	243,302
Restricted for debt service	103,623
Unreserved	<u>(248,747)</u>
TOTAL NET ASSETS	<u>98,178</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 3,890,564</u>

The accompanying notes to financial statements are an integral part of this statement.

DOLLAR BAY-TAMARACK CITY AREA SCHOOLS
STATEMENT OF ACTIVITIES

June 30, 2006

	<u>Program Revenues</u>			<u>Governmental Activities</u>
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>
<u>FUNCTIONS/PROGRAMS</u>				
Government Activities:				
Instruction and instructional support	\$ 1,445,928	\$ -	\$ 314,579	\$ (1,131,349)
Support services	721,938	-	-	(721,938)
School service	94,355	25,453	60,157	(8,745)
Athletics	45,955	6,949	-	(39,006)
Interest on long-term debt	234,217	-	-	(234,217)
Other debt service	225	-	-	(225)
Total Governmental Activities	<u>\$ 2,542,618</u>	<u>\$ 32,402</u>	<u>\$ 374,736</u>	<u>(2,135,480)</u>
General Revenues:				
Taxes				
Property taxes, levied for general operation:				199,798
Property taxes, levied for debt service				251,626
State school aid - unrestricted				1,735,540
Interest and investment earnings				41,005
Other				<u>7,458</u>
Total general revenues and transfers				<u>2,235,427</u>
Change in Net Assets				99,947
Net Assets - Beginning				<u>(1,769)</u>
Net Assets - Ending				<u>\$ 98,178</u>

The accompanying notes to financial statements are an integral part of this statement.

DOLLAR BAY-TAMARACK CITY AREA SCHOOLS
GOVERNMENTAL FUNDS
BALANCE SHEET
June 30, 2006

	General	Debt Service Fund	Other Non-major Governmental Funds	Total Governmental Funds
ASSETS:				
Cash and cash equivalents	\$ 15,625	\$ -	\$ 1,384	\$ 17,009
Investments	405,389	-	-	405,389
Taxes receivable	11,272	14,454	-	25,726
Accounts receivable	-	-	3,116	3,116
Due from other governmental units	336,761	-	890	337,651
Due from other funds	-	43,283	1,020	44,303
Restricted cash	-	45,886	-	45,886
TOTAL ASSETS	<u>\$ 769,047</u>	<u>\$ 103,623</u>	<u>\$ 6,410</u>	<u>\$ 879,080</u>
LIABILITIES:				
Accounts payable	\$ 15,618	\$ -	\$ -	\$ 15,618
Accrued expenses	238,800	-	-	238,800
Due to other governmental units	66,846	-	-	66,846
Due to other funds	44,303	-	-	44,303
Short-term notes payable	514,000	-	-	514,000
TOTAL LIABILITIES	<u>879,567</u>	<u>-</u>	<u>-</u>	<u>879,567</u>
FUND BALANCES:				
Reserved	-	103,623	-	103,623
Unreserved	(110,520)	-	6,410	(104,110)
TOTAL FUND BALANCES	<u>(110,520)</u>	<u>103,623</u>	<u>6,410</u>	<u>(487)</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 769,047</u>	<u>\$ 103,623</u>	<u>\$ 6,410</u>	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	3,055,787
Long-term liabilities, including bonds payable are not due and payable in the current period and therefore are not reported in the funds.	(2,867,105)
Accrued interest is not included as a liability in governmental funds.	(90,017)
Net assets of governmental activities	<u>\$ 98,178</u>

The accompanying notes to financial statements are an integral part of this statement

DOLLAR BAY-TAMARACK CITY AREA SCHOOLS
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
Year Ended 2006

	General Fund	Debt Service Fund	Other Non-major Governmental Funds	Totals
REVENUES				
Local sources	\$ 249,261	\$ 258,537	\$ 38,465	\$ 546,263
State sources	1,823,408	-	7,756	1,831,164
Federal sources	226,711	-	52,401	279,112
Total revenues	2,299,380	258,537	98,622	2,656,539
EXPENDITURES				
Instruction	1,411,489	-	-	1,411,489
Supporting services	705,801	-	-	705,801
Debt service	-	109,877	-	109,877
School service	-	-	94,355	94,355
Athletics	-	-	45,955	45,955
Total expenditures	2,117,290	109,877	140,310	2,367,477
Excess (deficiency) of revenue over expenditures	182,090	148,660	(41,688)	289,062
OTHER FINANCING SOURCES (USES)				
Operating transfers in (out)	(42,220)	-	42,220	-
Transfers to other districts	(41,262)	-	-	(41,262)
Loan payments	-	(100,000)	-	(100,000)
Total other financing sources (uses)	(83,482)	(100,000)	42,220	(141,262)
NET CHANGE IN FUND BALANCE	98,608	48,660	532	147,800
FUND BALANCES - BEGINNING OF YEAR	(209,128)	54,963	5,878	
FUND BALANCES - END OF YEAR	\$ (110,520)	\$ 103,623	\$ 6,410	

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds do not record depreciation but does report capital outlays as expenditures; in the statement of activities, these costs are capitalized and allocated over their estimated useful lives as depreciation (81,334)

Accrued expenses are recorded in the statement of activities when incurred; it is not reported in governmental funds until paid 34,956

Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt) (1,475)

Change in net assets of governmental activities \$ 99,947

The accompanying notes to financial statements are an integral part of this statement.

DOLLAR BAY-TAMARACK CITY AREA SCHOOLS
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2006

	<u>Fiduciary Fund</u>
ASSETS:	
Cash and investments	<u>\$ 28,938</u>
LIABILITIES:	
Due to student groups	<u>\$ 28,938</u>

The accompanying notes to financial statements are an integral part of this statement.

DOLLAR BAY-TAMARACK CITY AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS - June 30, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Dollar Bay-Tamarack City Area Schools have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant District accounting policies are described below.

REPORTING ENTITY

Dollar Bay-Tamarack City Area Schools (the "District") is governed by the Dollar Bay-Tamarack City Area School Board of Education (the "Board"), which has responsibility and control over all activities related to public school education within the District. The District receives funding from local, state and federal government sources and must comply with all the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by the accounting principles generally accepted in the United State of America. Board members are elected by the public and have decision-making authority, the power to designated management, the ability to significantly influence operations, and the primary accountability for fiscal manners. In addition, the District's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statement Numbers 14 and 39.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the District. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the School District's government-wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school district and other unrestricted items are not included as program revenues and are reported as general revenues.

In the government-wide statement of net assets, the governmental activities column is presented on a consolidated basis and is reported on a full accrual, economic resource basis, which recognizes all long-term and receivables as well as long-term debt and obligations. The District's net assets are reported in three parts – invested in capital assets, net of related debt; restricted for debt service; and unrestricted net assets.

The District first utilizes restricted resources to finance qualifying activities.

The government-wide statement of activities reports both the gross and net cost of each of the District's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues and other revenues). The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenue must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The District does allocate indirect costs.

The government-wide focus is more on the sustain ability of the District as an entity and the change in the District's net assets resulting from the current year's activities.

DOLLAR BAY-TAMARACK CITY AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS - June 30, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Governmental Funds - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgements, are recorded only when payment is due.

Property taxes, unrestricted State aid, intergovernmental grants, and interest income associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government unit.

Fiduciary fund statements are also reported using the economic resources measurement focus and the accrual basis of accounting.

The School District reports the following major governmental funds:

General Fund - The General Fund is the general operating fund and accordingly, it is used to account for all financial resources except those required to be accounted for in another fund.

Debt Retirement Fund - The Debt Retirement Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Other non-major funds:

Special Revenue Funds - Special Revenue Funds are used to account for the activities of specific school service revenue sources such as the School Food Service, and Athletic Activities.

Fiduciary Funds:

The Trust and Agency Fund is used to account for assets held by the School District in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. This fund is used to account for assets that the District holds for others in an agency capacity (primary student activities).

Fiduciary funds are not included in the government-wide statements.

Accrual Method

The government-wide financials statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

DOLLAR BAY-TAMARACK CITY AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS - June 30, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND BASIS OF PRESENTATION

Modified Accrual Method

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is done.

Property taxes, state and federal aid and interest associated with the current fiscal period are all considered to susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

State Revenue

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2006, the foundation allowance was based on pupil membership counts taken in February and September of 2005.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period and is funded through payments from October 2005 to August 2006. Thus, the unpaid portion at June 30th is reported as due from other governmental units.

The District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain governmental funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

Other Accounting Policies

Cash and cash equivalents

Cash and equivalents include amounts in demand deposits and certificates of deposit.

The District reports its investments in accordance with GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools and No. 40, Deposits and Investment Risk Disclosures. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standard also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the district intends to hold the investment until maturity. Accordingly, investments in banker acceptances and commercial paper are recorded at amortized cost.

DOLLAR BAY-TAMARACK CITY AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS - June 30, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

State statutes authorizes the District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The District is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, banker's acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

Property Taxes

Property taxes levied by the District are collected by Osceola Township and Torch Lake Township and are periodically remitted to the District. The taxes are levied and become a lien as of July 1 and December 1 and are due upon receipt of the billing by the taxpayer and becomes a lien on the first day of the levy year. The actual due dates are September 14 and February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

For the year ended June 30, 2006, the District levied the following amounts per \$1,000 of assessed valuation:

Fund	Mills
General fund - Non-homestead	17.59
Debt service fund - Homestead and non-homestead	7.83

Receivables and Payables

Activity between funds are reported as "due to/from other funds." All receivables, including property taxes receivable, are shown net of allowance for uncollectibles.

Inventory

All funds utilize the purchase method of recording inventories of materials and supplies. Under the purchase method, inventories are recorded as expenditures when they are purchased.

Capital Assets

Capital assets, which include land, buildings, equipment, site improvements, and vehicles are reported in the applicable governmental activities column in the government-wide financial statements. Fixed assets are defined by the government as assets with an initial individual cost of more than \$3,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair & maintenance that do not add to the value or materially extend asset lives are not capitalized.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and additions	20-50 years
Buses and other vehicles	5-10 years
Furniture and other equipment	5-10 years

DOLLAR BAY-TAMARACK CITY AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS - June 30, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accrued Benefits

The liabilities for accrued benefits reported in the district-wide statements in the amount of \$144,637, consisted of unused vacation and retirement incentives.

Vacation - Non-affiliated staff accrued vacation as of June 30, 2006 is \$22,137.

Retirement Incentive - The District's contract with the Copper Country Education Association includes a retirement incentive payment to retiring teachers. Twelve employees accepted the incentive with payments in installments over three to five years. The liability to the District at June 30, 2006 was \$122,500.

Long-term Obligations

In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Reclassification

Certain items in the prior year financial statements have been reclassified to conform with the current year presentation.

NOTE B - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

The School District follows these procedures in establishing the budgetary data reflected in the financial statements.

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. A public hearing is held to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978) enacted at a regular meeting by School Board approval. The Act provides that a local unit shall not incur expenditures in excess of the amount appropriated.
4. During the year the budget is monitored, and amendments to the budget resolution are made when deemed necessary.
7. Budget appropriations lapse at the end of the fiscal year.

In the body of the financial statements, the School's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. Violations, if any, for the general fund are noted in the required supplementary information section.

DOLLAR BAY-TAMARACK CITY AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS - June 30, 2006

NOTE C - CASH AND INVESTMENTS

As of June 30, 2006 the District had the following investments:

Investment Type	Fair Value	Weighted Average Maturity (Years)	Rating	%
MILAF - MICMS	\$ 228	.0837	AAA	0.06%
MILAF - MIMAX	405,161	.0837	AAA	99.94%
	<u>\$ 405,389</u>			<u>100.00%</u>
Portfolio weighted average maturity		<u>.0837</u>		

1 day maturity equals 0.0027, one year equals 1.00

Interest Rate Risk - In accordance with its investment policy, the District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements.

Credit Risk - State law limits investments in commercial paper corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs).

Concentration of Credit Risk - The District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial Credit Risk - Deposits - In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2006, \$44,352 of the District's bank balance of \$189,786 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the District's name.

Custodial Credit Risk - Investments - For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business.

DOLLAR BAY-TAMARACK CITY AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS - June 30, 2006

NOTE C - CASH AND INVESTMENTS (Continued)

At year-end, the School District's cash deposits (checking, savings and certificates of deposit) and investments were reported in the basic financial statements in the following categories and breakdown between deposits and investments for the School District is as follows:

	Governmental Activities	Fiduciary Funds	Total Primary Government
Unrestricted cash	\$ 17,009	\$ 0	\$ 17,009
Restricted cash	45,886	28,938	74,824
Total cash and cash equivalents	62,895	28,938	74,824
Investments	405,389	0	405,389
Total deposits and investments	\$ 468,284	\$ 28,938	\$ 497,222

NOTE D - FIXED ASSETS

Fixed Asset activity of the School District's governmental activities was as follows:

	Balance 06/30/05	Additions	Deletions	Balance 06/30/06
Land	\$ 1	\$ 0	\$ 0	\$ 1
Building and additions	3,532,869	0	0	3,532,869
Equipment and furniture	87,058	0	11,000	76,058
School buses	166,444	0	0	166,444
Vehicles other than buses	11,000	0	0	11,000
Subtotal	3,797,372	0	11,000	3,786,372
Accumulated depreciation:				
Building and additions	431,888	71,378	0	503,266
Equipment and furniture	79,561	2,812	11,000	71,373
School buses	141,927	5,769	0	147,696
Vehicle other than buses	6,875	1,375	0	8,250
	660,251	81,334	11,000	730,585
Net capital assets	\$ 3,137,121	\$ 81,334	\$ 0	\$ 3,055,787

Depreciation expense was charged to activities of the School District as follows:

Governmental activities	
Instruction	\$ 74,190
Operations	1,375
Transportation	5,769
Total governmental activities	\$ 81,334

DOLLAR BAY-TAMARACK CITY AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS - June 30, 2006

NOTE E - INTER-FUND RECEIVABLES, PAYABLES, AND TRANSFERS

Amounts due from (to) other funds represent the balance of monies due from or to other funds for expenditures made or fund balance transfers approved. The amounts of inter-fund receivables and payables as of June 30, 2006 are as follows:

<u>Fund</u>	<u>Inter-fund Receivable</u>	<u>Fund</u>	<u>Inter-fund Payable</u>
General	\$ 0	General	\$ 44,303
Food Service	1,020	Food Service	0
Debt Retirement	43,283	Debt Retirement	0
	<u>\$ 44,303</u>		<u>\$ 44,303</u>

<u>Fund</u>	<u>Transfer In</u>	<u>Fund</u>	<u>Transfer Out</u>
General	\$ 0	General	\$ 42,220
Food Service	1,830	Food Service	0
Athletic	40,390	Athletic	0
	<u>\$ 42,220</u>		<u>\$ 42,220</u>

NOTE F - LONG TERM DEBT

2005 Advance Refunding

On April 27, 2005 the Authority issued \$2,455,000 of general obligation unlimited tax refunding bonds to advance refund \$2,350,000 of outstanding 1997 Building and Site bonds.

The bond issue matures as indicated below with interest at varying rates of 3.75% to 4.5% per annum. Interest payments started on November 1, 2005, and are payable semi-annually on May 1, and November 1 as indicated. The bonds are to be both term and serial.

Optional Redemption: Bonds of this issue maturing in the years 2007 through 2014, inclusive, are not subject to redemption prior to maturity. Bonds or portions of bonds in multiples of \$5,000 of this issue maturing in the years 2015 and thereafter, shall be subject to redemption prior to maturity, at the option of the School District, in such order as the School District may determine and by lot within any maturity, on the first day of any month on or after May 1, 2014, at par and accrued interest to the date fixed for redemption.

Mandatory Redemption: The Bonds maturing May 1, 2022, May 1, 2024 and May 1, 2027 are term bonds subject to mandatory redemption, in part, by lot. When term bonds are purchased by the School District and delivered to the paying agent for cancellation or are redeemed in a manner other than by mandatory redemption, the principal amount of the term Bonds affected shall be reduced by the principal amount of the bonds so redeemed or purchased in the order determined by the School District.

DOLLAR BAY-TAMARACK CITY AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS - June 30, 2006

NOTE F - LONG TERM DEBT (Continued)

2005 Advance Refunding Schedule

Fiscal Year	November 1 Interest	May 1		Total
		Interest	Principal	
2006-2007	\$ 50,268	\$ 50,268	\$ 110,000	\$ 210,536
2007-2008	48,205	48,205	110,000	206,410
2008-2009	46,142	46,142	110,000	202,284
2009-2010	44,080	44,080	110,000	198,160
2010-2011	42,018	42,018	110,000	194,036
2011-2012	39,955	39,955	110,000	189,910
2012-2013	37,892	37,892	110,000	185,784
2013-2014	35,693	35,693	110,000	181,386
2014-2015	33,492	33,492	110,000	176,984
2015-2016	31,293	31,293	115,000	177,586
2016-2017	28,992	28,992	115,000	172,984
2017-2018	26,692	26,692	120,000	173,384
2018-2019	24,263	24,263	120,000	168,526
2019-2020	21,802	21,802	120,000	163,604
2020-2021	19,312	19,312	125,000	163,624
2021-2022	16,625	16,625	125,000	158,250
2022-2023	13,938	13,938	125,000	152,876
2023-2024	11,187	11,187	125,000	147,374
2024-2025	8,438	8,438	125,000	141,876
2025-2026	5,625	5,625	125,000	136,250
2026-2027	2,813	2,813	125,000	130,626
	<u>\$ 588,725</u>	<u>\$ 588,725</u>	<u>\$ 2,455,000</u>	<u>\$ 3,632,450</u>

SCHOOL BOND LOAN FUND

In accordance with Act 108, Public Acts of Michigan, 1961, as amended, the State of Michigan can loan the school district funds to make debt payments if, for any reason, the district is unable to pay the principal and interest on bonds when due. At June 30, 2006, the balance due to the School Bond Loan Fund was \$340,730 including accrued interest of \$73,262.

The loans will be repaid from taxes levied for that purpose. Repayment will commence subsequent to the repayment of the School District's 2005 refunding bond issues. However, repayments shall be made earlier if taxes levied and collected in any particular year exceed those required to repay the bonds.

The interest rate associated with loans from the School Bond Loan Fund is established periodically by the State Administrative Board. The rate at June 30, 2006 was 4.5%.

DOLLAR BAY-TAMARACK CITY AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS - June 30, 2006

NOTE F - LONG-TERM DEBT (Continued)

RETIREMENT PAYABLE

The School District approved a retirement agreement with various employees. Under the agreements, the School District pays each employee a monthly payment based on the agreed upon amounts. The amounts are paid in various monthly installments.

The payment schedule is as follows:

<u>Fiscal Year</u>	<u>Amount</u>
2006-2007	\$ 19,000
2007-2008	38,250
2008-2009	31,500
2009-2010	27,000
2010-2011	6,750
Total	<u>\$ 122,500</u>

Activity in the general long-term obligations account group was as follows for the year ended June 30, 2006:

	<u>Balance</u> <u>June 30, 2005</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>June 30, 2006</u>	<u>Current</u> <u>Portion</u>
1997 Serial Bonds	\$ 2,425,000	\$ 0	\$ 2,425,000	\$ 0	\$ 0
2005 Refunding Bond	2,455,000	0	0	2,455,000	110,000
School Bond Loan	267,468	0	0	267,468	0
Capital Lease	3,525	0	3,525	0	0
Retirement Incentive	162,250	0	39,750	122,500	19,000
	<u>5,313,243</u>	<u>0</u>	<u>2,468,275</u>	<u>2,844,968</u>	<u>\$ 129,000</u>
Accrued Interest	97,740	0	7,723	90,017	
Accrued Benefits	9,620	12,517	0	22,137	
TOTAL	<u>\$ 5,420,603</u>	<u>\$ 12,517</u>	<u>\$ 2,475,998</u>	<u>\$ 2,957,122</u>	

As of June 30, 2006, the aggregate maturities of long-term debt are as follows:

<u>School Year</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2006-2007	\$ 100,536	\$ 129,000	\$ 229,536
2007-2008	96,410	148,250	244,660
2008-2009	92,284	141,500	233,784
2009-2010	88,160	137,000	225,160
2010-2011	84,036	116,750	200,786
2011-2012	79,910	110,000	189,910
2012-2013	75,784	110,000	185,784
2013-2018	312,324	570,000	882,324
2018-2023	191,880	615,000	806,880
2023-2027	56,126	767,468	823,594
TOTAL	<u>\$ 1,177,450</u>	<u>\$ 2,844,968</u>	<u>\$ 4,022,418</u>

DOLLAR BAY-TAMARACK CITY AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS - June 30, 2006

NOTE G - NOTE PAYABLE

During the year ended June 30, 2006, the School District borrowed funds from the Michigan Municipal Bond Authority for cash flow purposes.

<u>Purpose of Loan</u>	<u>Date Of Issue</u>	<u>Original Amount</u>	<u>Maturity</u>	<u>Interest Rate</u>	<u>6/30/06 Balance</u>
Cash flow loan	08/19/05	<u>\$ 514,000</u>	08/20/05	2.92%	<u>\$514,000</u>

NOTE H - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN

Substantially all of the District's employees are eligible to participate in the statewide Michigan Public School Employees' Retirement System (MPERS), a multiple-employer, cost-sharing public employee retirement system. Effective January 1, 1987, Act 91 of the Public Acts of 1985 established a voluntary contribution to the Member Investment Plan (MIP). Employees first hired before January 1, 1990, made a one-time irrevocable election to contribute to the tax deferred MIP. Employees first hired on or after January 1, 1990 will automatically be included in MIP.

Members in MIP may retire at any age after attaining thirty years of creditable service; or at age sixty with at least 10 years of credited service; or at age 60 with a minimum total of five years of creditable service and with credited service in each of the five school fiscal years immediately preceding the retirement allowance effective date. The retirement allowance is calculated using a formula of 1.5% of the average of the highest total earnings during a period of thirty-six consecutive calendar months (three years) multiplied by total years to the nearest tenth of a year of credited service.

Employees who did not elect the MIP option fall under the MPERS Basic Plan and may retire after attaining age sixty with ten or more years of credited service; or attaining age fifty-five with thirty or more years of credited service; or attaining age fifty-five while still working at least fifteen but fewer than thirty years of credited service in each of the five school fiscal years immediately preceding the retirement allowance effective date. The retirement allowance is computed using a formula of 1.5% of the average of the highest total earnings during a period of sixty consecutive months (five years) multiplied by the total years to the nearest tenth of a year of credited service.

The MPERS also provides death, disability, health, medical, dental, vision, and hearing insurance coverage. Benefits are established by state statute.

The District was required by the state statute to contribute 14.87% of covered compensation through September 30, 2005 and 16.34% of covered compensation to the Plan for the remainder of the year. The total amount contributed to the Plan for the year ended June 30, 2006 was \$183,359 and equal the required contributions.

The "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employees' service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the MPERS' fund status on a going concern basis, assess progress made in accumulating sufficient assets to pay benefits when due and make comparisons among MPERS and employers. The MPERS does not make separate measurements of assets and pension benefit obligations for individual districts.

As of September 30, 2005 for the MPERS as a whole, the actuarial accrued liability was \$44.8 billion. The pension plan net assets were \$36 billion, resulting in a ratio of assets at market value to the actuarial accrued liability of 80.36%. Employer contributions are based upon level-percent-of-payroll principles so that the contribution rates do not have to increase over decades of time. The District's 2006 contribution represented less than 1% of total contributions required of all participating entities.

DOLLAR BAY-TAMARACK CITY AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS - June 30, 2006

NOTE H - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN (Continued)

Ten year historical trend information showing the MPSERS' progress in accumulating sufficient assets to pay benefits when due is presented in the MPSERS' September 30, 2005 annual report.

The District is not responsible for the payment of retirement benefits which is the responsibility of the State of Michigan.

NOTE I - FOUNDATION REVENUE

Effective as of fiscal year 1994-95 the State of Michigan adopted a foundation grant approach which provides for a specific annual amount of revenue per student based on a state wide formula. The foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. The foundation allowance is based on the average of pupil membership counts taken in February and September of the previous year.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The school district levies 18.000 mills for non-homestead property taxes. State revenue recognized during the foundation period (currently the fiscal year) is as follows:

2005-06 Foundation	\$	6,875.00
Less Local Support:		
Non-Homestead Tax Value		10,617,141
Multiplied by mills		<u>0.018</u>
Total Local Support		191,109
Divided by General Education K-12 membership		<u>280.24</u>
Calculated Local Support		<u>(681.95)</u>
2005-06 Foundation Grant Allowance Per Pupil	\$	<u>6,193.05</u>

NOTE J - RECONCILIATION OF R7120 TO REPORTED FEDERAL REVENUES

The amounts reported as current payments on the R7120, Grant Section Auditors Report prepared by the State of Michigan, reconcile with the federal revenue on the Governmental Funds - Statement of Revenues, Expenditures and Changes in Fund Balances on page 17 as follows:

Total current payments per R7120	\$	245,042
Less State School Breakfast Program		(1,089)
Less prior year account receivables:		
Title I		(321)
Title II		(5,591)
Improving Teacher Quality		(5,831)
Plus:		
Comprehensive School Reform accounts receivable		5,779
USDA Commodities		165
Direct Federal grants		<u>40,958</u>
Total Federal Financial Assistance	\$	<u>279,112</u>

The School District expended less than \$500,000 in Federal awards during the fiscal year ended June 30, 2006 and is exempt from Federal Single Audit requirements, thus a schedule of federal financial assistance was not prepared.

DOLLAR BAY-TAMARACK CITY AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS - June 30, 2006

NOTE K - CONTINGENT LIABILITIES

Risk Pool

Dollar Bay-Tamarack City Area Schools is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The School District was unable to obtain general liability insurance at a cost it considered to be economically justifiable. Dollar Bay-Tamarack City Area Schools joined together with other school districts currently operating a common risk management and insurance program. Dollar Bay-Tamarack City Area Schools pays an annual premium to the pool for its general insurance coverage. The agreement provides that the pool will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$500,000 for each insured event.

Dollar Bay-Tamarack City Area Schools continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The pooling agreement allows for the pool to make additional assessments to make the pool self-sustaining. The School District is unable to provide an estimate of the amounts of additional assessments.

The MASB-SEG Property & Casualty Pool has published its own financial report for the year ended June 30, 2006, which can be obtained through the School District.

NOTE L - SUBSEQUENT EVENT

School Loan Fund: On August 18, 2006, the School District entered into a note with the School Loan Fund. The principal amount and the interest rate on the note shall not exceed \$318,000 and 3.68% per annum, respectively. The note matures on August 20, 2007. The loan, which is pledged by future state aid payments, will provide funds for general operating expenditures.

NOTE M - DEFICIT FUND BALANCES

The general purpose financial statements show fund deficits at June 30, 2006 in the General Fund of \$110,515.

The following is an outline of specific steps the District has included in the deficit elimination plan:

- School enrollment has gone up considerably. With this growth, the district anticipates an increase in revenue of about \$182,000. This increase in the number of students is expected to be maintained for the next four years.
- Two teachers will be retiring at the end of the 2006-07 school year. Anticipated savings for salary and health insurance will be approximately \$26,000.
- Continued cooperative bid savings for supplies and services.

The District is aware that the deficit elimination plan must be strictly adhered to for the 2006-2007 school year. If the plan is not followed stringently, more cost-reduction measures will be taken. Such measures may include the elimination and/or reduction of an administrative staff position, counselor, librarian, and all para-professional positions.

REQUIRED SUPPLEMENTAL FINANCIAL INFORMATION

DOLLAR BAY-TAMARACK CITY AREA SCHOOLS
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
For the Year Ended June 30, 2006

	Budgeted Amounts		Actual	Variance
	Original	Final	(GAAP Basis)	Final to Actual
REVENUES:				
Local sources	\$ 248,660	\$ 275,424	\$ 249,261	\$ (26,163)
State sources	1,864,065	1,823,939	1,823,408	(531)
Federal sources	109,646	228,697	226,711	(1,986)
TOTAL REVENUE	2,222,371	2,328,060	2,299,380	(28,680)
EXPENDITURES:				
Instruction	1,349,723	1,419,562	1,411,489	8,073
Supporting services	629,265	718,831	705,801	13,030
TOTAL EXPENDITURES	1,978,988	2,138,393	2,117,290	21,103
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	243,383	189,667	182,090	(7,577)
OTHER FINANCING SOURCES (USES):				
Operating transfers out	(38,284)	(44,752)	(42,220)	2,532
Other outgoing transfers	(33,000)	(41,838)	(41,262)	576
Total other financing sources (uses)	(71,284)	(86,590)	(83,482)	3,108
NET CHANGE IN FUND BALANCE	\$ 172,099	\$ 103,077	98,608	\$ (10,685)
FUND BALANCE - BEGINNING OF YEAR			(209,128)	
FUND BALANCE - END OF YEAR			\$ (110,520)	

OTHER SUPPLEMENTAL FINANCIAL INFORMATION

DOLLAR BAY-TAMARACK CITY AREA SCHOOLS
GENERAL FUND
STATEMENTS OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
Year Ending June 30, 2006

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>	<u>2005</u>
REVENUES:				
Local sources:				
Taxes	\$ 233,056	\$ 199,798	\$ (33,258)	\$ 198,115
Investments	9,754	11,406	1,652	6,829
Contributions	1,500	1,501	1	-
Miscellaneous	31,114	36,556	5,442	798
Total local sources	<u>275,424</u>	<u>249,261</u>	<u>(26,163)</u>	<u>205,742</u>
State sources:				
Unrestricted grants:				
State aid	1,736,055	1,735,540	(515)	1,697,515
Restricted grants:				
Driver's education	220	220	-	3,570
Special Education	23,686	24,955	1,269	21,353
School Readiness	1,000	807	(193)	809
At-risk	62,958	61,886	(1,072)	61,806
Other state revenue	20	-	(20)	82
Total state sources	<u>1,823,939</u>	<u>1,823,408</u>	<u>(531)</u>	<u>1,785,135</u>
Federal sources:				
Title I	52,294	52,294	-	62,648
Title V	655	-	(655)	1,531
Title II	19,721	19,921	200	24,954
REAP grant	18,723	18,723	-	17,637
Impact aid	18,697	18,697	-	-
Special education	3,760	3,760	-	-
Comprehensive school reform grant	114,847	109,779	(5,068)	-
Homeland security	-	2,537	2,537	-
Service learning grant	-	1,000	1,000	-
Total federal sources	<u>228,697</u>	<u>226,711</u>	<u>(1,986)</u>	<u>106,770</u>
TOTAL REVENUES	<u>2,328,060</u>	<u>2,299,380</u>	<u>(28,680)</u>	<u>2,097,647</u>
EXPENDITURES:				
Instruction:				
Basic program:				
Elementary School	495,923	488,606	7,317	507,385
High School	649,776	643,773	6,003	732,965
Total basic program	<u>1,145,699</u>	<u>1,132,379</u>	<u>13,320</u>	<u>1,240,350</u>
Added needs:				
Special education	40,113	43,165	(3,052)	71,866
Compensatory education	170,871	167,658	3,213	54,883
At-Risk	62,879	68,287	(5,408)	74,905
Total added needs	<u>273,863</u>	<u>279,110</u>	<u>(5,247)</u>	<u>201,654</u>
Total instruction	<u>1,419,562</u>	<u>1,411,489</u>	<u>8,073</u>	<u>1,442,004</u>

DOLLAR BAY-TAMARACK CITY AREA SCHOOLS
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
(Continued)
Year Ending June 30, 2006

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>	<u>2005</u>
Supporting services:				
Pupil:				
Guidance	<u>32,598</u>	<u>32,715</u>	<u>(117)</u>	<u>21,856</u>
Instructional staff:				
Improvement of instruction	<u>39,099</u>	<u>38,399</u>	<u>700</u>	<u>9,946</u>
Library	<u>35,701</u>	<u>33,747</u>	<u>1,954</u>	<u>33,528</u>
Total instructional staff	<u>74,800</u>	<u>72,146</u>	<u>2,654</u>	<u>43,474</u>
General administration:				
Board of education	<u>39,420</u>	<u>39,401</u>	<u>19</u>	<u>25,045</u>
Executive administration	<u>115,781</u>	<u>113,362</u>	<u>2,419</u>	<u>125,503</u>
Total general administration	<u>155,201</u>	<u>152,763</u>	<u>2,438</u>	<u>150,548</u>
School administration - Principal	<u>116,474</u>	<u>117,124</u>	<u>(650)</u>	<u>137,635</u>
Business-fiscal services	<u>57,222</u>	<u>49,849</u>	<u>7,373</u>	<u>34,994</u>
Operation & maintenance	<u>211,391</u>	<u>208,972</u>	<u>2,419</u>	<u>176,448</u>
Pupil transportation	<u>71,145</u>	<u>72,232</u>	<u>(1,087)</u>	<u>83,939</u>
Total supporting services	<u>718,831</u>	<u>705,801</u>	<u>13,030</u>	<u>648,894</u>
TOTAL EXPENDITURES	<u>2,138,393</u>	<u>2,117,290</u>	<u>21,103</u>	<u>2,090,898</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>189,667</u>	<u>182,090</u>	<u>(7,577)</u>	<u>6,749</u>
OTHER FINANCING SOURCES (USES):				
Operating transfer out	<u>(44,752)</u>	<u>(42,220)</u>	<u>2,532</u>	<u>(39,779)</u>
Other outgoing transfers	<u>(41,838)</u>	<u>(41,262)</u>	<u>576</u>	<u>(28,502)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(86,590)</u>	<u>(83,482)</u>	<u>3,108</u>	<u>(68,281)</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	<u>\$ 103,077</u>	<u>98,608</u>	<u>\$ (4,469)</u>	<u>(61,532)</u>
FUND BALANCE, BEGINNING OF YEAR		<u>(209,128)</u>		<u>(147,596)</u>
FUND BALANCE, END OF YEAR		<u>\$ (110,520)</u>		<u>\$ (209,128)</u>

DOLLAR BAY-TAMARACK CITY AREA SCHOOLS
DEBT SERVICE FUND
STATEMENTS OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
Year Ended June 30, 2006

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>	<u>2005</u>
REVENUES:				
Local sources:				
Taxes:				
Current taxes	\$ 247,104	\$ 251,626	\$ 4,522	\$ 249,977
Interest income	1,275	6,900	5,625	86
Penalties & interest on delinquent taxes	-	11	11	206
TOTAL REVENUES	<u>248,379</u>	<u>258,537</u>	<u>10,158</u>	<u>250,269</u>
EXPENDITURES:				
Interest on bonds	105,765	109,652	(3,887)	138,288
Other expense	-	225	(225)	13,275
TOTAL EXPENDITURES	<u>105,765</u>	<u>109,877</u>	<u>(4,112)</u>	<u>151,563</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURE	142,614	148,660	6,046	98,706
OTHER FINANCING SOURCES (USES)				
Redemption of bond principal	(100,000)	(100,000)	-	(75,000)
Refunding bond loan proceeds	4,600	-	(4,600)	-
TOTAL OTHER FINANCING SOURCES	<u>(95,400)</u>	<u>(100,000)</u>	<u>(4,600)</u>	<u>75,000</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	<u>\$ 47,214</u>	<u>48,660</u>	<u>\$ 1,446</u>	<u>23,706</u>
FUND BALANCE, BEGINNING OF YEAR		<u>54,963</u>		<u>31,257</u>
FUND BALANCE, END OF YEAR		<u>\$ 103,623</u>		<u>\$ 54,963</u>

DOLLAR BAY-TAMARACK CITY AREA SCHOOLS
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
June 30, 2006

	School Service	Athletic	Totals (Memorandum Only)	
			2006	2005
ASSETS AND OTHER DEBITS				
Cash	\$ -	\$ 1,384	\$ 1,384	\$ 1,100
Receivables	-	3,116	3,116	-
Due from funds	1,020	-	1,020	16,449
Due from other governmental units	890	-	890	573
TOTAL ASSETS	<u>\$ 1,910</u>	<u>\$ 4,500</u>	<u>\$ 6,410</u>	<u>\$ 18,122</u>
LIABILITIES				
Accounts payable	\$ -	\$ -	\$ -	\$ 7,945
Accrued expenses	-	-	-	4,300
Due to other funds	-	-	-	(1)
TOTAL LIABILITIES	<u>-</u>	<u>-</u>	<u>-</u>	<u>12,244</u>
FUND EQUITY:				
Fund balance - unreserved	<u>1,910</u>	<u>4,500</u>	<u>6,410</u>	<u>5,878</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 1,910</u>	<u>\$ 4,500</u>	<u>\$ 6,410</u>	<u>\$ 18,122</u>

DOLLAR BAY-TAMARACK CITY AREA SCHOOLS
SCHOOL SERVICE FUND
STATEMENTS OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
Year ended June 30, 2006

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>	<u>2005</u>
REVENUES:				
Local sources:				
Adult lunches	\$ 2,500	\$ 4,635	\$ 2,135	\$ 4,148
A-La-Carte	-	-	-	314
Student lunches	19,250	20,818	1,568	21,523
Miscellaneous	11,750	2,947	(8,803)	1,063
Total local sources	33,500	28,400	(5,100)	27,048
State sources	4,891	7,756	2,865	11,068
Federal sources:				
School lunch program	41,174	52,236	11,062	48,388
USDA entitlements	-	134	134	795
USDA bonus entitlements	-	31	31	199
Total federal sources	41,174	52,401	11,227	49,382
TOTAL REVENUES	79,565	88,557	8,992	87,498
EXPENDITURES:				
Salaries	21,200	20,648	552	14,538
Employee benefits	5,105	4,937	168	3,254
Purchase services	67,447	68,770	(1,323)	63,828
TOTAL EXPENDITURES	93,752	94,355	(603)	81,620
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(14,187)	(5,798)	8,389	5,878
OTHER FINANCING SOURCES (USES)				
Operating transfers in	14,187	1,830	(12,357)	-
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES	\$ -	(3,968)	\$ (3,968)	5,878
FUND BALANCE, BEGINNING OF YEAR		5,878		-
FUND BALANCE, END OF YEAR		\$ 1,910		\$ 5,878

DOLLAR BAY-TAMARACK CITY AREA SCHOOLS
ATHLETIC FUND
STATEMENTS OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
Year Ended June 30, 2006

	<u>BUDGET</u>	<u>2006</u>	<u>VARIANCE</u>	<u>2005</u>
REVENUES:				
Local sources:				
Gate receipts	\$ 13,167	\$ 6,949	\$ (6,218)	\$ 11,397
Contributions	-	3,116	3,116	-
TOTAL REVENUES	<u>13,167</u>	<u>10,065</u>	<u>(3,102)</u>	<u>11,397</u>
EXPENDITURES:				
Salaries	20,455	22,077	(1,622)	19,895
Employee benefits	5,255	4,512	743	3,512
Purchase services	11,975	13,115	(1,140)	13,697
Supplies, materials, and other	6,047	6,251	(204)	2,356
TOTAL EXPENDITURES	<u>43,732</u>	<u>45,955</u>	<u>(2,223)</u>	<u>39,460</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(30,565)	(35,890)	(5,325)	(28,063)
OTHER FINANCING SOURCES (USES)				
Operating transfers in	<u>30,565</u>	<u>40,390</u>	<u>9,825</u>	<u>39,779</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES	<u>\$ -</u>	<u>4,500</u>	<u>\$ 4,500</u>	<u>11,716</u>
FUND BALANCE, (DEFICIT) BEGINNING OF YEAR		<u>-</u>		<u>(11,716)</u>
FUND BALANCE, (DEFICIT) END OF YEAR		<u>\$ 4,500</u>		<u>\$ -</u>

DOLLAR BAY-TAMARACK CITY AREA SCHOOLS
TRUST AND AGENCY FUND
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
June 30, 2006

	Balance June 30, 2005	Receipts	Disbursements	Balance June 30, 2006
ASSETS				
Cash	\$ 13,874	\$ 74,247	\$ 59,183	\$ 28,938
TOTAL ASSETS	<u>\$ 13,874</u>	<u>\$ 74,247</u>	<u>\$ 59,183</u>	<u>\$ 28,938</u>
LIABILITIES				
Due to school groups				
Cheerleaders	(199)	742	412	131
Class of 2006	2,094	26,048	28,142	0
Class of 2007	1,156	6,082	2,512	4,726
Class of 2008	2,197	3,180	795	4,582
Class of 2009	5	631	130	506
Bill Milde Memorial Fund	332	570	740	162
Student Council	4,433	9,731	10,377	3,787
Yearbook	117	8,309	5,820	2,606
Sixth Grade Camp Nesbit	0	2,733	1,819	914
Eighth Grade	0	271	0	271
Girls Basketball	427	1,506	1,865	68
Boys Basketball	(1,187)	297	0	(890)
Principal's Discretionary	237	2,278	2,171	344
Odyssey of the Mind	363	0	0	363
Band	3,680	11,719	4,176	11,223
S.A.D.D.	219	150	165	204
Miscellaneous	0	0	59	(59)
Total due to student groups	<u>13,874</u>	<u>74,247</u>	<u>59,183</u>	<u>28,938</u>
TOTAL LIABILITIES	<u>\$ 13,874</u>	<u>\$ 74,247</u>	<u>\$ 59,183</u>	<u>\$ 28,938</u>



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LETTER OF COMMENTS AND RECOMMENDATIONS

Board of Education
Dollar Bay-Tamarack City Area Schools
Dollar Bay, Michigan

In connection with our audit of the financial statements of Dollar Bay-Tamarack City Area Schools, as of and for the year ended June 30, 2006, the following concerns regarding the accounting records, procedures, and internal control structure came to our attention.

Our comments are based upon conditions noted during our audit and are not intended to be all inclusive. These comments are submitted as constructive suggestions to assist you in strengthening controls and procedures and are not intended to reflect on the honesty or integrity of any individual.

Public Act 738 - Electronic Transactions of Public Funds

The District should be aware of Act 738 - "Electronic Transactions of Public Funds". This Act affects electronic payments and transfers by local units of government, including school districts. The Act requires the District to adopt a resolution to authorize use of automated clearinghouse (ACH) arrangements. The District needs to designate an Electronic Transaction Officer, develop a written policy regarding procedures and internal controls, and initiate a board resolution to adopt the ACH policy. The Electronic Transaction Officer that the District chooses will be responsible for the ACH agreements that include payment approval, accounting, reporting, and compliance with the ACH policy.

Public Act 621 - Budget Over Expenditures

Public Act 621 of 1978, as amended, prohibits expenditures in excess of budgeted appropriations. Instances of violations of these provisions are readily ascertainable from the financial statements and the accompanying information. There were no material overages in the individual budgeted funds.

General

During the audit, we noted that accounting reports are not made available on a timely basis.

We believe it would be beneficial to formulate a complete accounting policies and procedures manual which would document the flow of financial information and set guidelines as to the responsibilities and time lines for the school.

We noted that bank statements were accumulated for several months before they were reconciled. This may result in errors or other problems not being recognized or resolved on a timely basis. We recommend that all bank accounts be reconciled each month prior to preparation of the monthly financial statements.

Segregation of Duties

General principles of internal control call for segregation of the functions of recording transactions, authorization of transactions, and custody of assets. The School District's accountant assistant records receipts, deposits the receipts, prepares checks, and reconciles the bank accounts creating a lack of segregation of duties in the receipt and disbursement of accounting data.

We advise that someone independent of the cash receipts and depositing duties trace the written receipts to the bank deposit and bank statement and also prepare the monthly bank reconciliations. At the minimum, the Board Treasurer should review all bank statements.

Documentation

During the audit, we noted there is no documentation for game workers at athletic events. We suggest that some sort of record keeping system be established to document the time and pay for each athletic event.

Documentation of Board Proceedings (3rd Year Comment)

The following items should be documented in the board minutes as they occur: the hiring of significant new employees; details of contracts entered into; information regarding obtaining and accepting bids; transfers of funds, new or additional revenue including grants; fund balance designations; and the opening and closing of bank accounts, as well as approval of authorized signers and restrictions on accounts. It is also important, when adopting or amending the budget, to state the total revenues and expenditures approved and attach a signed copy of the budget to those minutes.

Deficit Fund Balance

The financial statements show a fund deficit at June 30, 2006 in the General Fund of \$110,520, which is a reduction of \$98,608 from prior year fund balance amount of \$209,128. This reduction is due mainly to a change in health benefits package and cooperative bid savings for supplies and services.

We recommend that the board continue to monitor the fund balances of all funds and take the steps to avoid such deficits as necessary. In accordance with the State School Aid Act of 1979, the school must formulate and file a deficit elimination plan with the Michigan Department of Education. The District will submit a plan prior to December 15, 2006. The school district is required to submit to the Michigan Department of Education, for approval, a budget for the current school fiscal year and a plan to eliminate the district's deficit no later than the end of the second school fiscal year after the deficit was incurred.

We would like to thank the administrative staff for the cooperation we received during our audit. We appreciate the opportunity to present these comments and recommendations for your consideration and we are prepared to discuss them at your convenience.

This report is intended for the information of the School District's Board of Education, the cognizant audit agency, and other federal and state audit agencies. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Bruce A. Rukkila, CPA, PC

Certified Public Accountants

August 22, 2006